Shibley, George Henry

To business men, farmers, investors

Chicago

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TO

Business Men, Farmers, Investors.

HOW TO

FORESEE

GENERAL PRICES.

Facts of History which Establish the Economic
Laws whereby the Rises and Falls in
General Prices can be Foretold.

BY
GEO. H. SHIBLEY,
("JUSTICE.")
Author of "The Money Question."

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INTRODUCTORY.

A business man, to be successful, has to possess the faculty of foretelling to some extent the rises and falls in prices; and as to farmers the same is true to some extent. This faculty is gained by experience and from the Facts of History. It may be gained from the facts of history because we know that "like causes produce like results." We then inquire what effect has an increase in the volume of money? What effect has an increase of credit? What effect a decrease in the volume of money? For these and other questions of a similar nature there is an answer. Read them for yourself and see, too, that they are the facts of history:

HISTORY OF GENERAL PRICES.

Since 1782 the prices of commodities taken as a whole have risen and fallen as set forth on the opposite page. You will observe that the changes have been very great.

What Is It that Raises Prices?

Well, there are many things which may do this. If we *increase the quantity of money* which is exchanged for commodities, and all else *remains the same*, for example, the amount of credit remains the same and the rapidity of circulation, then **prices in general are raised.**

And if we *decrease* the quantity of money which is exchanged for commodities, and all else remains the same, for example, the amount of credit and the rapidity of circulation, then **prices in general are lowered.**

Let us look into history and see how the volume of money has increased and decreased:

INCREASE AND DECREASE IN THE VOLUME OF MONEY.

With the discoveries of gold in California and Australia, that metal was poured into the United States and the other countries of the world which used it as a money metal. This caused the purchasing power of money *to decrease—the prices of commodities rose.*

In 1862 the United States Government began issuing paper money and this caused prices in the United States to rise still more and to become so high as to be above gold prices. See opposite page.

To lower these paper prices to gold prices Congress, in September, 1865, and April, 1866, passed laws to retire a considerable portion of the paper money, and in pursuance of these laws many millions of paper money were withdrawn.[1] Prices fell from 216.8 to 172.2.[2] This contraction of the volume of money was stopped by a law of Congress, February 4, 1868. From 1868 on for several years—up to January, 1879—the volume of government paper money was kept the same and the coun-

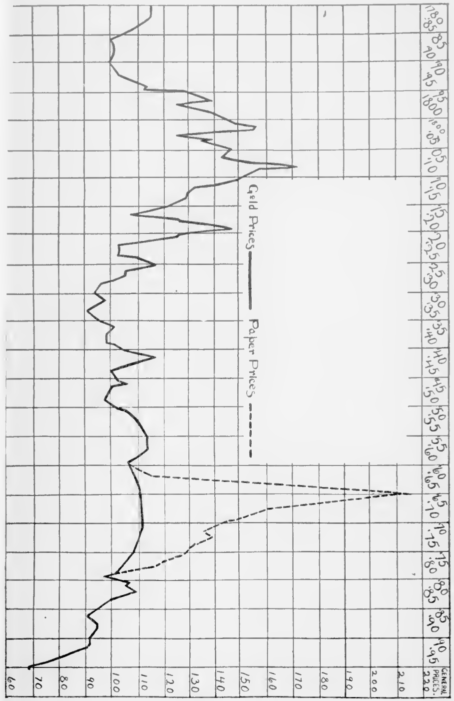
[1] The amount of government paper money withdrawn from circulation is stated by Senator John Sherman at 140 million dollars out of 737 millions—a one-fifth contraction (Congressional Record, January 9, 1868, "Recollections of John Sherman," page 434). Additional contraction occurred through the refunding of compound interest, legal tender notes, loan certificates, etc.

[2] Senate Report on Wholesale Prices.

try grew in population, thus increasing the quantity of commodities. This *tended* to lower general prices, and the gold in the banks in the United States, used as a basis of credit, was lessened $136,800,000, during 1871-72-73 through its export to Europe.[1] As a result general prices fell from 172.2 to 105.

[1] United States Statistical Abstract, 1894, p. 51.

National Bank money during the years 1864-68 replaced the State bank money.



In 1879 the volume of money in the United States was increased 78,000,000 dollars through the importation of gold during the last five months of 1879.[1] This did not go into the United States Treasury reserve.[2] The next year (1880) the net importation of gold was 97 million dollars,[3] and the treasury reserve was reduced 9 million dollars.[4] Then 80 million dollars of silver money was issued under the Allison law from February, 1878, to January, 1881. The National Banks increased their circulation 20 million dollars.[5] And the output of gold from the mines in the U. S. and not used in the arts was coined. This made **a total increase in the circulation for these two years of about** 280 MILLION DOLLARS. Before this inflation began the total volume of money doing money work was about 110 million dollars gold, 69 million dollars subsidiary silver coins, 274 million dollars greenbacks, 311 million dollars National bank money,[1] **a total of 764 million dollars.** The increase in circulation then was **37 per cent.**

As a result of this increasing volume of money the prices of commodities in general rose but **only about 10 per cent,**[2] OWING TO THE GREAT EXPANSION OF BUSINESS.[3]

This rise would not have been as great as 10 per cent had it not been for the unlocking of the hoardes of money which rising prices bring about.[4]

For 1881-'2 the increase in the volume of money in circulation in the United States was **about 108 million dollars.**[5] **General prices rose one and one-half per cent** during these two years (1881-'2).

During 1883-4-5 and 6 the increase in the volume of gold money in circulation in the United States was about 14 million dollars.[1] The National Banks decreased their circulation of bank money 45 million dollars.[2] The amount of silver money added under the Allison law of

[1] Appleton's Annual Cyclopedia for 1879, p. 370.

[2] The treasury reserve had been collected by July 1, 1879; so stated in the United States Statistical Abstract for 1894, p. 27.

[3] United States Statistical Abstract 1894, p. 51.

[4] Same citation, page 27. The way this gold was released from use in Europe was through the issuance of paper money by the Bank of Germany and the Bank of France and the lessening of their coin reserves and the coin reserve of the Bank of England. ("The Money Question," by Shibley, p. 384.)

[5] U. S. Statistical Abstract for 1894, p. 29.

[1] U. S. Statistical Abstract for 1894, pp. 27-29.

[2] Senate Report on wholesale prices of 223 commodities.

[3] In the words of Appleton's Cyclopædia for 1880 title Commerce of the United States: There was "a volume of business in internal commerce, manufactures, agriculture, and in financial operations and the extension of productive facilities and inauguration of new enterprises **which exceed the figures of any previous year in the commercial history of the United States."**

[4] In the words of Appleton's Annual 1880 title "Commerce of the United States:" "There has been a very large supply of money in the money market, an unequally active demand, which has occasionally produced a tight market notwithstanding the enormous capitals *which were unlocked at the return of confidence* [i. e., unlocked at the prospect of a rise in prices; in other words, a prospect of a decrease in the purchasing power of money.]" Republished in "The Money Question," Shibley, p. 385.

[5] In detail: Increase of National Bank money 15 million dollars, increase of gold from mines in United States about 60 million dollars, and from importation, 7½ million dollars. (U. S. Statistical Abstract, 1894, pp. 27, 51.) Increase of silver coins under Allison law of 1878, 48 million dollars for 1881-'2.

[1] U. S. Statistical Abstract. 1894, p. 27.

[2] Same citation.

1878 was 2 million per month, a total of 96 million dollars. This shows **a net increase for** these four years of only 65 million dollars—**16 million dollars per year—whereas on the basis of increase in population alone we needed** 40 MILLION PER YEAR.[1] As a result the prices of 223 commodities, at wholesale, fell from 108.5 to 91.9—**a 15 per cent fall in general prices.**

Rising Prices, 1887-88.

During 1887 rising prices were instituted as in 1879, through the bankers of Europe, increasing the volume of money in circulation. For 1887 the *net import* of gold into the United States was **33 million dollars,** whereas for the preceding year the net export of gold was 22 million dollars. For 1888 the net import of gold was **25 million dollars.**[2]

During this time the Allison Silver Law of 1878 was **adding about 24 million dollars per year,** and **the output of gold from the mines went into the circulation** except as it was used in the arts. On the other hand the national banks *decreased* their circulation **62 million dollars.**[3]

The rise in the prices of 223 commodities during 1887 was **.7 of 1 per cent** (the rise not beginning until the year was well advanced), and for 1888 **the rise was 1.6 per cent.**[4]

We will now pass on to the years

1889-91.

During 1889 the demand for gold abroad was such that the net export amounted to 50 million dollars, and for the next year 4 million, and during 1891 68 million dollars, **a total gold export of 122 million dollars in three years.**

The National Banks **reduced their circulation 83 million dollars during the three years.**

On the other hand the conditions remained about the same as to the output of gold from the mines in the United States, and there was an increase in the output of silver money during the last half of 1890 and for 1891, amounting to 2½ million dollars per month, or **45 million dollars**. By lessening the government reserve the circulation was **increased 53 million dollars.**[5]

The prices of 223 commodities at wholesale **remained stable in 1889, fell 2 points in 1890,** and with the increase in the volume of silver purchase money and increase in the tariff **remained stable in 1891.**[1] President Harrison in his annual message of December, 1890, said: "The enlargement of our currency by the silver bill undoubtedly gave an upward tendency to trade and had a marked effect on prices, but this natural and desired effect of the silver legislation was by many erroneously attributed to the tariff act."

1892.

During 1892 there was practically no net export of gold from the United States, the national banks increased their circulation 5 million

[1] Bankers' Magazine of New York, July, 1884. p. 4. Republished in "The Money Question," Shibley, p. 412.

[2] U. S. Statistical Abstract, 1894, p. 51.

[3] Same citation, p. 29.

[4] Senate Report on Wholesale Prices.

[5] U. S. Statistical Abstract 1894, pp 27, 29.

[1] Senate Report on Wholesale Prices

dollars,[1] the output from our gold mines continued, and the silver purchase law increased the circulation 57 million dollars.

Prices in general fell about 1 per cent.[2]

1893-96.

During 1893 the net gold export from the United States was **87 million dollars**[3] and **the silver purchase law was repealed which had been adding 57 million dollars to the volume of money yearly.** Those who secured the repeal of this law and who defeated a bimetallic law to increase the volume of money declared, of course, that the course they advocated would best promote the general welfare. On the other hand the bimetallists claimed just the opposite.

Who was right?

History shows that prices as a whole kept falling after the repeal of the silver purchase law. January 26, 1894, R. G. Dun & Co. stated that the average prices of commodities were

4.3 ~~43~~ PER CENT LOWER THAN IN OCTOBER

(the month of the repeal and at the close of a great and long panic), and 13.8 per cent lower than one year previous.[4]

Prices in general kept falling throughout 1894, and the early part of 1895. During the 1894 session of Congress a determined attempt was made by the "sound money" people to retire the 346 million dollars of greenbacks and 155 million dollars of treasury notes issued in the purchase of silver, but they were unsuccessful.

Then followed a crusade by the "sound money" people to kill the sentiment for rising prices as expressed in the free silver sentiment. The government reserve was built up by a syndicate who purchased our bonds, and they agreed that they would import 31 million dollars of gold and that no gold should be exported before autumn, at which time gold could not go out, as it would be needed to move the crops. Then the Directors of the Bank of Germany increased their paper money circulation as in 1879 and reduced their coin reserve.[1] Prices in general began to rise and in a short time stocks and many lines of production were booming. Accompanying this rise in prices there was conducted a systematic effort to stop the demand for silver legislation (stop the demand for rising and then stable prices). Russia, however, interfered during July, 1895, by sweeping 75 million dollars of gold into her war chest,[1] and the German bankers were, by their government, forced to pay heed to retaining gold—a weapon of war in Europe. Since October, 1895, general prices went down, down, until about two months before the November election. During those two months there has been a very slight rise, on the average, with a short wheat crop sending up the price of wheat.

Gold has been sent into the United States to the amount of 75 million dollars. Will it stay in case Mr. McKinley is elected? The answer will depend upon whether the European countries withdraw their paper money, or refill their war chests, and whether they can bring into being more money in their countries to raise their prices so that they will

[1] U. S. Statistical Abstract, 1894, pp. 51, 29.

[2] Senate Report on Wholesale Prices.

[3] U. S. Statistical Abstract, 1894, p. 51.

[4] The Money Question, Shibley, page 527.

[5] U. S. Bureau of Statistics, for 1895, tile Banks-

[1] U. S. Bureau of Statistics, any of the monthly numbers after July, title Banks.

keep pace with the rise in prices in the United States should it appear likely that we can keep this gold for a year.

But it is not at all likely that we can keep this gold in case Mr. McKinley is elected, and, with the crops partly moved, we should expect to see gold shipped back to Europe in large quantities, and with the gold money flowing out PRICES WOULD NOT RISE.

The probable course of general prices under a continuance of the gold standard is set forth in number one of this series—"The Money Question."

In case Free Coinage at 16 to 1 wins, the probable course of prices is also set forth in "The Money Question. It is not necessary to here repeat what is there set forth. Especially is this so when it is considered that to point out the probable course of prices under a law which will change the ratio between silver and gold and so change the volume of money in all the silver using countries and gold-using countries is no small matter.

There is a large amount of data in addition to the facts of history, which are given to demonstrate the existence of economic laws. For what is said of "The Money Question', by eminent economists see the following page.

RESUME.

We have now presented the Facts of History which show the effect on general prices of increases in the volume of money and decreases in the volume, also the effect of increases in the quantity of the things against which money exchanges.

It must now be apparent that increasiug the volume of money *sufficiently* will raise general prices. And the opposite is true.

People who are interested in foreseeing the general course of prices must carefully gather the data showing:

A.

1. The Changes in the Volume of Money.
2. Changes in Volume of Credit.
3. Changes in the Rapidity of Circulation.

B.

Changes in the Demand for Money and Credit.

Effect of Improvements.

Improvements in the methods of productions lessen the price of the things *in which the improvements occur*—it lessens the price of one portion *as compared wsth the other portion*—but prices *as a whole'* (the 223 commodities in the Senate report, for example), **are affected by the volume of money, credit, etc.** For example: During the 50s, when gold poured into the United States, as was used as money, prices *as a whole* **rose** and at the same time improvements were lessening the prices of some commodities as compared wlth others, but prices *as a whole*, rose and rose, owing to the continued inflow of gold—the supply of money increased and prices as a whole rose.[1]

Over-Supply, Under-Supply.

Where for any reason there is an over-supply of any commodity, its price falls *as compared with other commodities.* On the other hand a shortage in the supply of any commodity sends up its price *as compared with other commodities.*

[5] Explained more fully in "The Money Question,"

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